

DEALING GREEN: OPTIONS FOR REGISTERED PROVIDERS

How Registered Providers can take advantage
of the Green Deal

July 2012



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Cover photo shows Hastoe Housing Association residents enjoying their home

FOREWORD

The Green Deal demonstrates the Government's determination to tackle perhaps the thorniest problem in reducing the carbon emissions of the UK's domestic buildings – making our existing homes as energy efficient as possible.

The Green Deal aims to improve the energy efficiency of 14m homes by 2020, driving down energy bills for residents and businesses, reducing CO2 and creating as many as 250,000 new jobs. It is an exciting and challenging initiative, and one in which the social housing sector will need to play a key role.

Many Registered Providers are already working hard to improve the sustainability of their homes, reducing the potential for fuel poverty among their tenants as well as minimising emissions. The Homes and Communities Agency wants to help all Registered Providers –and their residents – make the most of the opportunities that the Green Deal provides.

We've worked with Sustainable Homes to prepare this report to bring together their expertise and our experience, complementing other resources from the Department for Energy and Climate Change and the Local Government Association. It is written with Registered Providers in mind, but local authorities who own or manage their own stock may also find the content useful.

If you are at the start of your decision making process I hope this guide is a useful addition to your thinking. We can't provide all the answers, but we can help you ask the right questions.

With lower costs for residents, a greener housing stock and millions on pounds of private sector investment available, this is going to be a very big deal for social housing.



Richard Hill
Deputy Chief Executive
Homes and Communities Agency

INTRODUCTION

Homes and business premises in the UK are estimated to be throwing away up to £3bn in energy costs every year.

The Green Deal is the Government's energy efficiency policy designed to help reduce that total. The policy is intended to drive the take up of energy efficiency measures in 14m homes by 2020, impact millions of businesses, generate £7bn of investment annually, and create as many as 250,000 new jobs.

This flagship policy has the potential to kick start the drive to reduce carbon emissions. There are serious implications for Registered Providers including new sources of finance for retrofit, a need for clear communication with residents and new regulatory requirements for those wishing to become Green Deal installers or providers.

So how does it work? How will it affect your residents? Your housing stock? What part could your organisation play in delivering the Green Deal? This guide is aimed at asset managers and others making decisions about Green Deal implementation. You will need to take your own internal, and probably external, financial and legal advice. This publication is intended to help you ask the right questions.

How does the Green Deal work?

- The Green Deal allows consumers to have energy saving measures installed in their home or business at no upfront cost.
- A Green Deal charge will be attached to the electricity bills of the property to pay off the measures over time.
- It is a condition that the savings on fuel bills are expected to outweigh the costs of the Green Deal charge, leaving the resident or business owner better off – **the Golden Rule**.
- Importantly, the Green Deal charge will not impact on the credit worthiness of the resident as the charge is attached to the property.
- In some cases, installation of measures will not achieve savings to meet the Golden Rule because of household circumstances – vulnerable households may be under heating their homes so that they will use the same amount of energy but be warmer – or because of the high cost of improving hard to treat homes. These situations may be eligible for extra support from the Energy Company Obligation (ECO).

This guide focuses on opportunities for Registered Providers to take part in the Green Deal, as well as setting out what they need to be aware of. Although not the focus of this guide, businesses, including Registered Providers, will also be able to use the Green Deal to improve the energy efficiency of their own offices and premises.

The Green Deal Steps

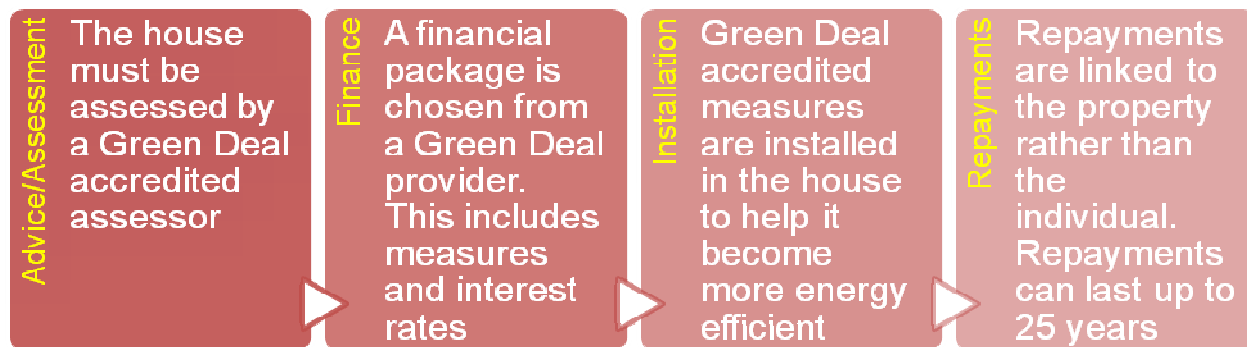


Diagram 1 - The Green Deal steps

The scale of the ECO is estimated to be £1.3bn per year, as set out in the Green Deal/ECO Impact Assessment. The total scale of the ECO may vary as the targets set for energy providers are carbon based, or in the case of the affordable warmth, a notional heat cost savings based, so the amount of funding required to meet the target may vary.

The Impact Assessment assumes around £540m per year of this will be targeted at helping the poorest. This is expected to assist around 180,000 homes per year.

- a) c£350m per year will be targeted at Affordable Warmth, delivering heating and insulation measures. The Government has broadened the eligibility criteria to include working tax credit recipients.
- b) c£190m ECO per year will be directed to the Carbon Saving Communities obligation for the poorest areas, including loft, cavity and other insulation measures. Registered Providers can access this fund.
- c) The remaining £760m per year will be targeted at hard to treat properties, delivering solid wall and hard to treat cavity wall insulation, plus packages of measures including those that reduce heat loss from a property. Registered providers can access this funding.

On 11 June 2012 the Department for Energy and Climate Change (DECC) noted, in their feedback to consultation responses that district heating schemes will now be eligible under the carbon saving obligation element of the ECO “where the district heating scheme is delivered as a package with other measures¹.”

When will the Green Deal start?

The Green Deal is expected to be available from October 2012². From this date, as a Registered Provider, your residents may start receiving calls or pamphlets offering a Green Deal plan. You may already have organisations asking if you would like to partner with them to provide the Green Deal.

¹ DECC feedback to consultation responses can be found at: <http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/5521-the-green-deal-and-energy-company-obligation-cons.pdf>. These were announced on 11 June 2012.

² DECC will undertake an on-going review of progress of the policy and uptake.

What part could we play in providing the Green Deal?

The Homes and Communities Agency (HCA), in its enabling role, has helped Sustainable Homes in producing this guidance for Registered Providers on their potential role in the Green Deal.

Registered Providers may consider four potential approaches to this policy:

- a) Becoming a Green Deal Provider.
- b) Providing part of the Green Deal service.
- c) Partnering – e.g. Registered Providers may be a focal point for area based approaches with local authorities and/or Green Deal Providers.
- d) Not providing Green Deal services, but using the Green Deal or ECO to improve homes.

This guide summarises the steps you can take to consider these options. Irrespective of the role you choose to take in providing the Green Deal, there are actions you can take to start to prepare, and issues that you can consider.



Alliance Homes was one of the first social landlords to state that it will be a Green Deal Provider.

It is establishing a legal framework investing its own money and will invite other landlords to join in order to achieve the scale necessary to provide Green Deal works. It is also running a pilot testing Green Deal measures on between 50 and 70 homes.

If being a Green Deal provider proves expensive, Alliance Homes is also considering working in partnership with an energy company. Alliance Homes is a community-based social enterprise providing a range of services within the West of England. They own around 6,500 properties.

www.nshousing.org.uk

BECOMING A GREEN DEAL PROVIDER

What is a Green Deal Provider?

A Green Deal Provider is the financial backer of the Green Deal works. It guarantees the work carried out and funds the installation; it is also the first point of contact for customer service enquiries after the Green Deal works are complete.

This guidance considers the implications for Registered Providers. DECC have published the Green Deal Provider Guide³: this sets out a step by step guide on how to set up as a Green Deal Provider.

The Green Deal Plan is the contract that sits between the Green Deal Provider, the installer of the measure, and the bill payer at the property. The plan sets out the financial terms of the agreement, such as the amount and duration of the instalments and the applicable interest rate, and any further obligations on the Green Deal Provider or customer.

It could be considered that Registered Providers are in a strong position to provide the Green Deal. Registered Providers:

- Can access loans at low rates for works to properties.
- Often already have a sizable customer base – many have over 10,000 residents.
- Are experienced in communicating with residents.
- Have supply chains for doing works.
- Are experienced providers of professional asset management services.
- Have an interest in ensuring the homes are of good quality.

Advantages

Becoming a provider has a number of potential benefits. These include, but are not limited to, providing the opportunity to:

- Reduce tenants' fuel bills.
- Lead on reducing carbon in your organisation's homes and potentially the homes of others (in the private sector).
- Generate a new income stream.
- Maintain a close understanding of your properties and deeper understanding of residents' needs.
- Ensure quality of works.
- Focus activity to reduce fuel poverty and encourage behaviour change while undertaking these works.
- Ensure local people are employed in the drive to improve homes. By being a provider you will be able to commission which organisation is employed to carry out assessments and works.
- Be seen as an innovator, and leading in the move towards the low carbon economy.

³ <http://www.decc.gov.uk/assets/decc/11/tackling-climate-change/green-deal/4964-green-deal-providers-guide.pdf>

Risks

Becoming a provider also brings a number of risks and liabilities including:

- Energy efficiency is not always an easy sell: good marketing and attractive incentives will be vital and could be costly with uncertain returns.
- Providers will take on the default risk of the Green Deal charges. They will also be liable for any guarantees and warranties put in place.
- It is unclear how housing association institutional lenders will view Green Deal finance and measures. They may wish to instigate revaluations of stock, in case Green Deal works, or the Green Deal charge on the meter, affect the values.

Actions to take to become a provider

You may like to analyse the potential for your organisation to develop a new business structure. The following questions may be of assistance. Has your organisation:

- Developed new business streams before?
- Experience of running projects requiring strong marketing?
- Considered the financial cost of developing a new business and competing with other providers? (Being a provider wouldn't prevent other providers approaching your tenants).
- Already got the ability to provide the services below either through your own service or by commissioning others?

Role through the customer journey	Resources you may have in place
Marketing	Marketing/Communications team/departments or companies
Arranging visits	Call centre
Assessment & advice	Surveyors/Domestic Energy Assessors
Finance & contracts	Legal & finance departments or solicitors & consultancies
Installation	Direct Labour Organisation or main contractors
Behavioural change	Maintenance or tenant liaison teams, frontline staff
Moving on, advice for new households	Housing management
Consumer Credit protection requirements	Equity Loan Home ownership services

Table 1 -Some of the roles necessary to be a Green Deal provider

If you have answered 'no' to these questions, this may mean you would have more development work to do or would need to find partners to provide the Green Deal.



Gentoo Green also plans to become a Green Deal Provider and is assessing potential partnerships. Gentoo, a SHIFT member, sees the Green Deal as an opportunity to both improve their assets and build a new sustainable income stream.

Through a subsidy it is providing, it will guarantee that the Golden Rule functions where it provides the service. A survey of 600 residents was conducted over 18 months. Answering the following question 'would you be prepared to have energy and money saving equipment fitted to your home for a small weekly charge, if the savings are more than your weekly charge' 84% said 'yes'. Of those saying "yes", 45% said they would pay more than £5 and 55% said they would pay less than £5.

The majority of residents accepted the idea of paying for energy efficiency improvements. In the longer term Gentoo is looking to provide this service to the private market.

<http://www.gentoo-group.com/gentoo-group/61/153/293/>

There are other considerable challenges in providing the Green Deal.

a) *Regulations that need to be met*

The regulations that need to be met include significant documentation and administration challenges which a Green Deal Provider must comply with.

A Green Deal Provider must follow the **Green Deal code of practice**⁴ which is designed to ensure that the providers have appropriate levels of training, are able to guarantee their work and that clear procedures are in place to ensure fair and transparent redress when things go wrong. This code of practice refers to the Green Deal assessors, providers, installers, and products and systems.

A valid **Consumer Credit Act 1974 (CCA) licence** should be held by the Green Deal Provider to ensure important rights and protections to consumers. In addition, the Green Deal Provider will have to comply with other consumer protection legislation, including the **Sale of Goods Act**, the **Consumer Protection from Unfair Trading Regulations (CPRs)** and the **Unfair Terms in Consumer Contracts Regulations (UTCCRs)**.

The Green Deal assessor will be required to make declarations to the consumer with regards to any additional services that are being offered before they visit the property. Application for a CCA licence can be made online through the Office of Fair Trading and takes from 25 to 90 working days. Associations which have operated equity loan home ownership schemes are likely to have experience of gaining a licence. Customers will be able to make full early repayments with immediate effects, in line with CCA requirements.

Green Deal Arrangements Agreement (GDAA): the regulations require this to be signed between energy suppliers and Green Deal Providers, setting out the respective responsibilities and obligations placed on each party. Accession to this Agreement is binding on larger energy suppliers and on Green Deal Providers through the Green Deal authorisation scheme.

⁴ The draft Green Deal Code of Practice and Green Deal Arrangements Agreement can be viewed at www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx

Providers must pay the required **fees to the Oversight Body for Green Deal authorisation** in order to get accreditation for assessors, installers and the measures to be installed.

The Green Deal finance mechanism may not be appropriate for every organisation. It is useful to consider alternative mechanisms that could be used to retrofit homes.

The Revolving Retrofit Guarantee Fund (Guarantee Fund) was designed to provide loans for energy efficiency works or installation of renewables on homes. Over 100,000 home refurbishments have been successfully completed in Europe through the fund. The scheme is in the development phase and currently seeking finance. Schemes like this may provide other options for financing retrofit.

This scheme does not rely on the Golden Rule; it allows households to choose flexible terms and conditions in repaying their loans. The principle of the Guarantee Fund is to provide credit support for the lender who finances the retrofit projects. The guarantee acts as a security against default of the loan portfolio. The Guarantee Fund is designed to cover an agreed default rate on the loan portfolio.

In the event of a default for any of the loans, 100% of loss of principal experienced by the lender on the defaulted loan will be covered by a drawdown from the Guarantee Fund up to the limit of agreed default rate. In this way the lending should be more secure than 'mainstream' unsecured lending.

<http://www.radian.co.uk/retrofit/files/funding-mechanism-retrofit-overview.pdf>

The original consultation proposed that Green Deal Providers would need to **hold a surety bond in order to protect customers** in the event of insolvency or loss of Green Deal authorisation. The bond was designed to cover the cost of fulfilling all existing and future obligations. Changes announced on the 20 March 2012 mean Green Deal Providers will not be required to have insurance against insolvency or to set up an independent conciliation service.

It is a requirement that customers receive three quotes, where Green Deal Plans are in excess of £10,000 in the domestic sector. There are a number of other on-going obligations, including dealing with customer complaints, sending out annual statements that meet CCA requirements and providing information when the bill payer changes.

Where a Green Deal Provider cannot resolve a complaint consumers will be able to use a Green Deal Ombudsman and Investigation Service.

b) The HCA Regulatory position

The HCA's Regulatory Framework for social housing does not require Registered Providers to participate in the Green Deal. However, the

central feature of the co-regulatory system is that Boards and Councillors (who govern local authority housing services) are responsible for setting clear objectives and developing a forward-looking strategy that enables making the most of future opportunities and mitigating potential risks.

Therefore, when deciding how to respond to the Green Deal, a provider will need to consider the overall impact upon their organisation's strategic objectives and compliance with the HCA's regulatory standards. In particular, but not exclusively, for Private Registered Providers this decision should ensure their organisation's compliance with the regulatory standards concerning Governance and Financial Viability, and Value for Money.

c) Deciding to be a provider of loans?

Critical to the works meeting the Golden Rule is the interest rate on the Green Deal charge. As a Green Deal Provider your organisation would be providing this loan.

This is not an area that many Registered Providers have significant experience in. Usually Registered Providers take on loans to improve their own assets. The difference with looking for Green Deal finance is that this finance would be for the provision of a Green Deal Plan for others. Despite their lack of experience the strong financial position of some Registered Providers may put them in a good position to offer this service.



Under **FutureFit, Affinity Sutton** installed energy efficiency measures into 102 homes combined with energy lifestyle advice to some of these residents and an additional group who had no works done. It aims to understand the practical issues and costs of energy efficient building retrofit, and published two reports, including a cost analysis.

FutureFit financial modelling concluded that significant energy savings can be delivered through Green Deal retrofitting.

However, the report claims that there remains a marked funding gap on all approaches, of between £2,900 and £10,800 per property, excluding additional upfront costs of delivering a Green Deal programme, such as engagement costs.

The report, which concluded before the Government response to the Green Deal consultation, states that in order to realise the value of energy savings, Affinity Sutton needs to deliver 'Green Deal Plus'. This will require it to:

- Optimise work packages.
- Consider key trigger points for each package in order to replicate them.
- Manage supply chains in order to reduce costs with scale.
- Review alternative sources of finance.
- Manage risks, such as related to Green Deal and technical performance of measures installed.
- Secure ECO funding to plug the gap.

www.affinitysutton.com/futurefit

The Great British Refurb (<http://www.greatbritishrefurb.co.uk/projects-and-events/sep-2010-gbr-campaign-a-yougov-poll-2000-adults-on-green-deal>) found that the Green Deal was attractive at around 2%APR but people lost interest as the APR went up to 6%.⁵ Due to their strong financial standing and credit rating, Registered Providers may be able to raise finance at attractive rates, potentially leading to greater uptake.

If you are looking to provide Green Deal finance you will need to consider your current financial standing. The provision of finance could be partly met through bonds or other mechanisms.

The interest rates on loans and bonds will be determined by your credit worthiness, the amount you borrow and the length of time (Diagram 2). In addition, the lower the risk of the business, the lower the potential interest rate available. If investors see a business as a risky investment, they will want more return on their investment and therefore the interest rate will be higher.

There will also be costs for administering the funds. So, for example, where a Registered Provider is able to gain finance at a cost of 5%, it may be that they provide a Green Deal Plan at 5.3% so as

⁵ One in three (32 per cent) of those surveyed said they are 'very' or 'fairly' likely to take up Green Deal with an interest rate of 2% APR, but this falls back sharply to 12% (with an interest rate of 4% APR) and 7% (with a rate of 6% APR).

to cover the costs of managing the loan, customer services and other costs associated with the provision of finance. Note these figures are for illustration purposes and should not be read as being indicative of likely costs consumers will face.

Landlords can also consider separate corporate structures, or vehicles, which reduce the risk to core business, but are likely to be at the cost of more expensive project-type finance.

Bond issues to Registered Providers have been done for varying amounts from £50m to over £300m depending on the size of the organisation.

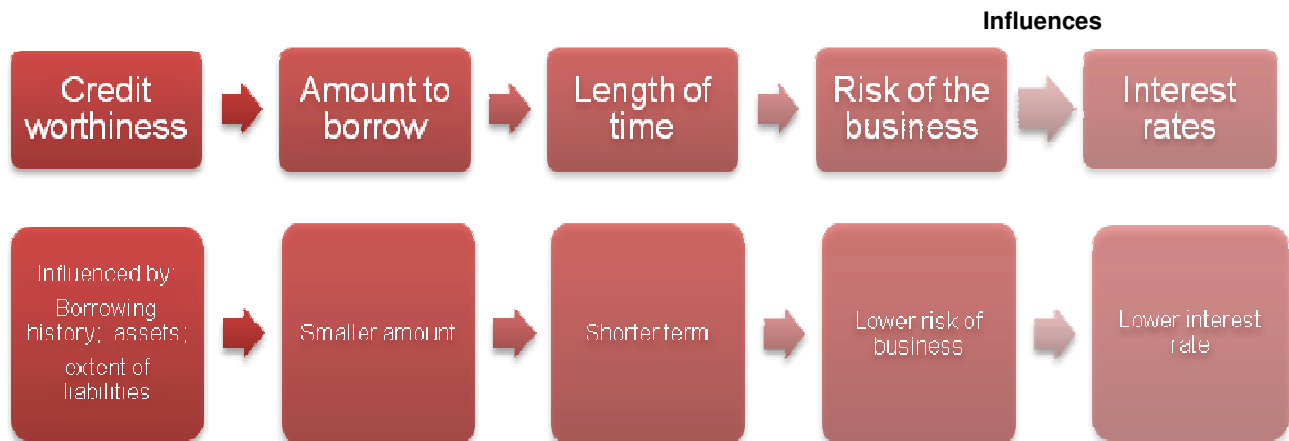


Diagram 2 - Some of the factors influencing potential interest rates

Large Registered Providers with considerable assets can secure large bonds as investors would feel more comfortable about their ability to repay. This may be one avenue for securing finance with which to provide the Green Deal. Other potential avenues might include:

- The Green Investment Bank⁶.
- The Green Deal Finance Company (TGDFC⁷).

The diagram below is a summary of some of the steps you could take to consider becoming a provider.



Diagram 3 - Steps you could take to consider providing the Green Deal

⁶ The Green Investment Bank is expected to start lending in 2015.

⁷ A summary of the Green Deal Finance Company- <http://thegreendealfinancecompany.com/html/home.html>

PROVIDING PART OF THE GREEN DEAL SERVICE WITH PARTNERS

Some organisations may not want to be Green Deal Providers but may still want to provide assessments and/or installations. This section focuses on how to make a decision as to whether you could partner with other organisations and provide part of the Green Deal.

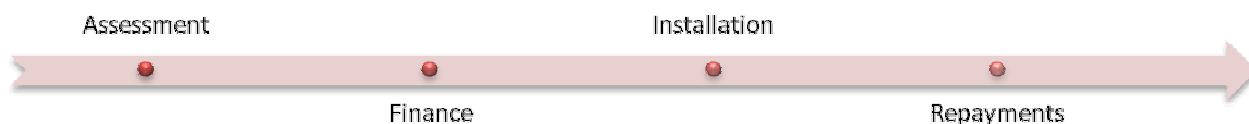


Diagram 4 - The Green Deal process

Assessment

Prior to receiving a Green Deal plan, every home or business must have an assessment. The assessment and accompanying advice must be carried out by a qualified and authorised Green Deal Advisor. They will have a mixture of technical knowledge, practical competence and 'soft' skills to provide households and businesses with the advice they need to take informed decisions. The assessment is in two parts: the energy performance of the property, and an occupancy assessment of the occupiers' lifestyles.

If you have Domestic Energy Assessors within your organisation they will need top up training to qualify as Green Deal Advisors. There are new elements to the Green Deal assessment code:

- The assessment methodology has changed.
- The **Golden Rule calculations** are needed in each property.
- Each property must have **an Occupancy Assessment**. This will consider the way the current householders use the property, the number of occupants, the actual temperature the home is heated to and the hours of heating.

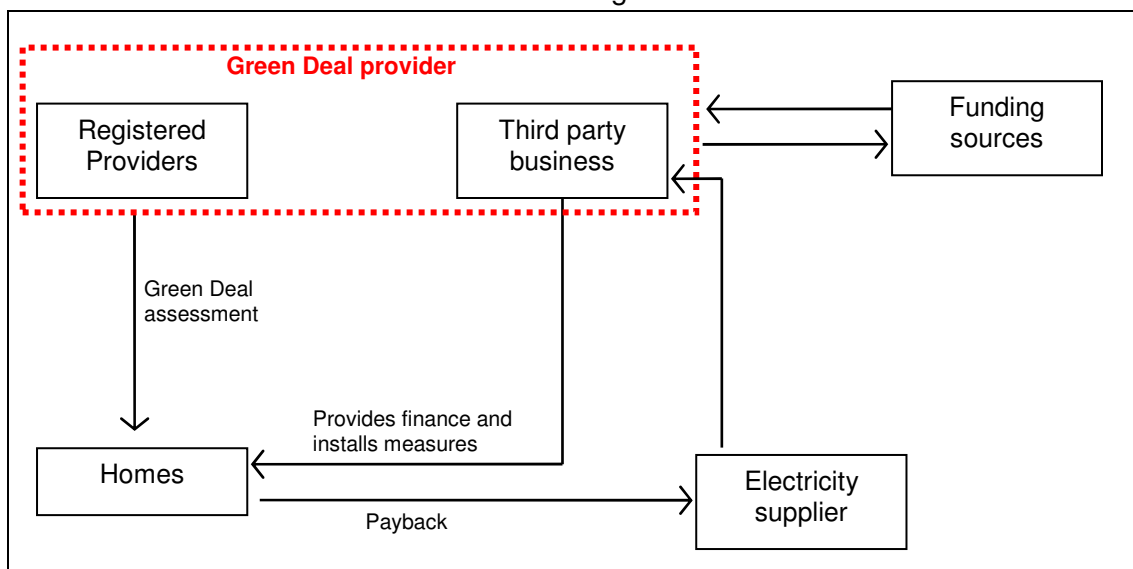


Diagram 5 - Possible model of partnership

Advantages

Advantages of being involved in Green Deal assessments include:

- Maintaining a strong understanding of your stock and the work that needs to be undertaken.
- Ensuring a quality service is available to your tenants.
- Being seen to be involved in the Green Deal.
- Generating a new potential income stream for your business.

Risks

Risks of being involved in Green Deal assessments include:

- Where you are providing assessments for non-residents it may be difficult to stay competitive on price with organisations that offer assessments at low or no cost as part of a Green Deal plan.
- Taking time to build up a team. If you would like to provide assessments but do not currently have Domestic Energy Assessors in-house, you will need to gain qualified staff. To qualify, Green Deal Advisors must undertake four practice assessments and pass an exam, which could take six months.
- Associations are likely to provide the assessment free for residents, however there will be some costs incurred to providing these assessments. Registered Providers will need to demonstrate internally that Green Deal partnering presents value for money.



Staffordshire Housing Association owns and manages over 2,800 affordable homes throughout North Staffordshire. It also has subsidiary companies, Blue Mountain Housing Association, Arch and a Home Improvement Agency, Revival.

The Association is currently developing its strategy to offer the Green Deal in a variety of ways.

One project is to test demand for the Green Deal through a trial scheme with a small number of homes in Stoke-on-Trent, working in partnership with a local developer.

The organisation is also looking at innovative solutions to offer the Green Deal by combining it with other home improvement products offered by Revival. Revival is a trusted brand and already provides a range of home improvement products, such as bathroom and kitchen replacements to people who own their own homes and need essential works to improve their quality of life.

It can access loans and equity release products for residents who may not be able improve their homes without help. Staffordshire Housing Group is a SHIFT member.

www.staffshousing.org.uk

Installation

Many Registered Providers already have a subsidiary providing installation works. These organisations could be:

- Sub-contracted on a per-job basis by a Green Deal Provider.
- An independent Green Deal installer commissioned directly by consumers, and who market your services to various Green Deal Providers.

The installation company will only be authorised as a Green Deal installer if it is:

- Certified by an accredited certification body against the relevant Green Deal standard set out in the Code of Practice.
- A member of the certification body which certified it.
- Agrees to comply with the Code of Practice.
- Keeps clear records of work done and allows monitoring of installation work when requested.

PAS 2030:2012 (Publicly Available Specification) – Improving the energy efficiency of existing buildings

This sets out the requirements for installation and process management during works. These include criteria relating to installation methods, equipment and tools, product and material suitability and the training, skills and competence of the people undertaking such installation. If an installer is already Gas Safe approved or is registered under the Microgeneration Certification Scheme (MCS) for the installation of a particular measure, they will be deemed as meeting the standard (PAS 2030) for those measures.

As an installer you will need to note that both landlord and resident consent is required before installation can take place. Some landlords may discuss postponing the works which a resident requests if they plan to undertake similar work in the near future.

It may be useful to have a good knowledge of future works planned to the property. This can act as a trigger point to also undertake the energy efficiency works. The asset management plan could be the most cost effective way to provide an efficient service, with potential cost benefits to both resident and landlord.



Black Country Housing Group is planning to provide services under the Green Deal. It has energy assessment and advice services in place and provides small-works building project management services in the private sector.

They are accredited on-completion domestic energy advisers and are Microgeneration Certification Scheme accredited for solar photovoltaic panel systems.

Black Country Housing Group hopes this will be an advantage. It is seeking more information on the requirements for Green Deal advisors and installers to evaluate the likely opportunities.

www.bcha.co.uk



**United Sustainable
Energy Agency**
Changing the way we use energy

A consortium of councils from the South and East of England are coming together to deliver the Green Deal through a Community Interest Company (CIC) model.

The consortium has been brought together through the work of **United Sustainable Energy Agency**, a not-for-profit company based in Milton Keynes.

The local authorities involved want to create a vehicle that is good for the local economy, good for local business and good for the community at large.

The group is creating a business plan for the CIC, establishing which local authorities want to take an owning share in the company, and beginning the process of incorporation. Local authorities that do not want to take an owning stake in the company will have the opportunity to receive the benefits of the service through an annual membership.

A proportion of the profits that the company makes will be placed into a community fund which will be made available to fund community projects.

www.usea.org.uk

Advantages

The advantages of being an accredited installer include:

- You benefit from knowledge of the type of works needed in the communities in which you work.
- There may be considerable demand for works. For example between seven and eight million properties with solid walls have not been insulated.
- There are particular drivers for these properties to be improved. From 2016 landlords in the private rented sector will need to offer the Green Deal to any tenants making a “reasonable request” for improvements.⁸ “Reasonable” is likely to be interpreted as those measures falling under the Green Deal. This may significantly drive up demand in the private sector for these works providing an income stream for Registered Providers offering this service.
- Further, from 2018 properties in the private rented sector with F and G EPC ratings will not be able to be rented out. The Government estimates that over 680,000 homes are currently F and G rated. This provision does not apply to Registered Providers, however it is useful to be aware of standards that are being implemented within the wider housing industry, as this could affect demand for affordable housing.

⁸ Note that although Registered Providers are private bodies, they are not included in this category of ‘private sector’. Housing associations or Arm’s Length Management Organisations will not need to meet this regulatory requirement.



In 2010, **Birmingham City Council** established the Birmingham Energy Savers (BES), a pioneer programme for low carbon retrofit of homes in the city. BES is a long-term programme to refurbish 200,000 homes by 2026, taking into account the Green Deal proposal and funding sources such as FiT and ECO.

In order to achieve the necessary scale, BES developed a ground-breaking model which brings together private and public organisations. Collectively, they have defined a body of work that could be done and advertised it in the Official Journal of the European Union.

www.birminghamenergysavers.org.uk

Another driver for improving properties is the Home Energy Conservation Act (HECA) 1995. DECC has published guidance on how they will use HECA to encourage reporting from local authorities on improving energy efficiency in residential accommodation⁹. Local authorities may take further action to improve performance in light of performance data being published.

Risks

- The most significant risk to installers is that of lack of take up. This may be partly reduced by strong marketing.
- There may be considerable competition in the market place. A consumer can choose to go directly to a Green Deal Provider or they can go to an independent installer to carry out the work. The Green Deal may bring other installers into your market. The cost of supplying measures will affect the level of the Green Deal charge. You will need to stay competitive.
- Installers that have a full range of services may be in a stronger position than those just offering installation of some measures. A broad range of measures will qualify for the Green Deal, subject to the Golden Rule. A full list of measures eligible to qualify under the Green Deal is available at appendix two.
- Consent issues are important to consider because if there is not consent from both residents and landlords confusion may arise. This will be reduced through adequate communication.

⁹ http://www.decc.gov.uk/en/content/cms/news/pn12_090/pn12_090.aspx#

Actions to take to partner to deliver the Green Deal

It is possible to enter into more innovative structures than simply slotting into one of the defined Green Deal Provider roles. The following is the model Birmingham City Council have developed to partner with private and public partners.

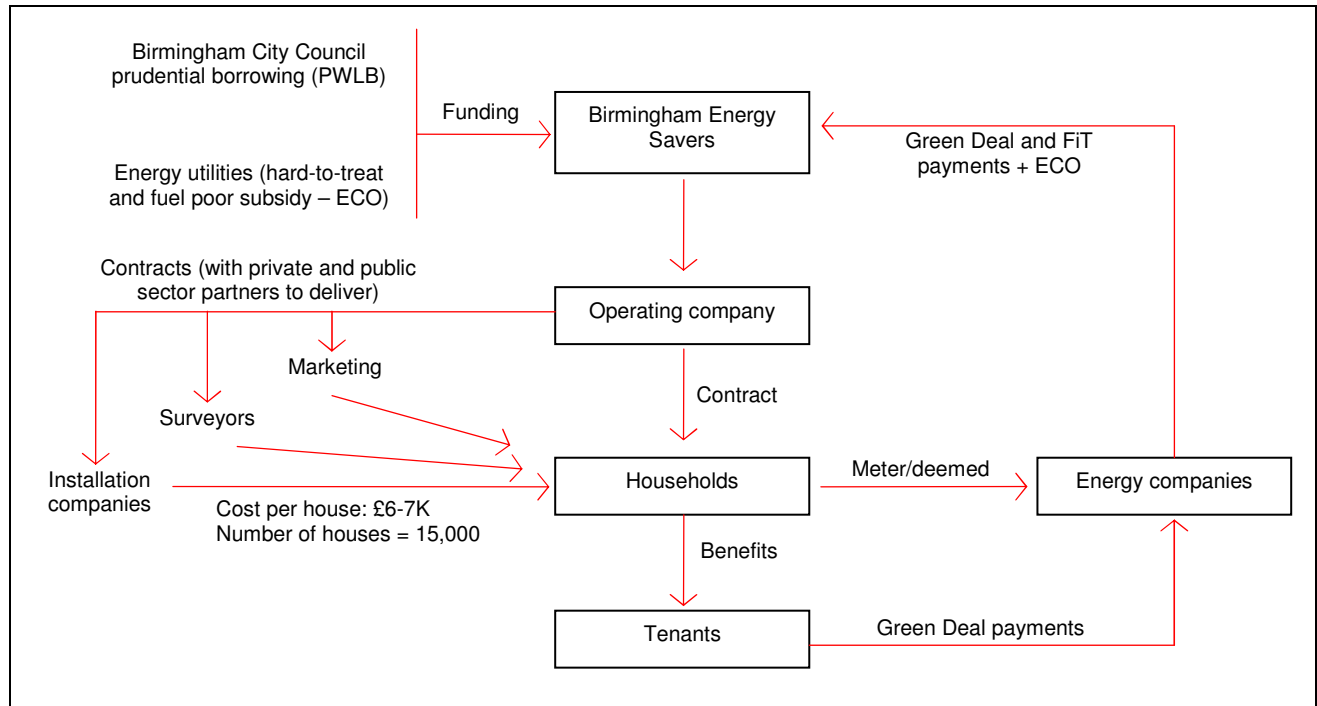


Diagram 6 - The Birmingham Green Deal model

The following diagram summarises the actions you could take when considering partnering to provide the Green Deal.



Diagram 7- Actions to consider when partnering to provide the Green Deal

WORKING THROUGH OTHER GREEN DEAL SERVICE PROVIDERS

This section focuses on those Registered Providers that are not looking to sell Green Deal services, whether as a provider or to provide part of the service such as an installer or assessor. These organisations may need to consider how they position themselves and how they might work through other Green Deal service providers to deliver energy efficiency measures (a theme taken up in the next section).

Even if you don't want to be a provider or partner you will benefit from understanding the Green Deal and ECO because it is likely to impact on your sustainable strategy and plans. You are likely to have a plan for how to communicate with tenants, and how to respond to Green Deal providers looking to undertake work to your homes.

Not all associations will see the Green Deal as a business opportunity. Some Registered Providers will not want to be Green Deal Providers. They may also not want to provide assessments or install measures. There are advantages and risks to this approach.

Advantages

Advantages of being a non-provider include:

- No financial outlays in developing new subsidiaries or business structures.
- Fewer additional regulations to meet.
- You can watch the market evolve and take decisions later.
- You can focus on making the most of the Green Deal to assist your residents rather than considering how you could be a provider or part provider of Green Deal services.

Risks

The potential risks are that you are:

- Less able to plan works to your stock in the most efficient manner. Whilst the regulations require occupiers to obtain landlord's consent before any works under the Green Deal are carried out, there is some risk that works may be carried out without the landlord's knowledge.
- Not seen to be involved in a new energy efficiency initiative, which may damage your association's reputation.
- Not able to capitalise on a new income stream.
- Not as informed about the quality of homes or lifestyle of your residents
- Not able to direct work to local businesses.
- Not being seen to combat fuel poverty.

Potential actions to take for those considering working through other Green Deal service providers

- You may like to assess the Green Deal Providers in your area. In particular you could consider how well the proposed provider could meet the following requirements: Cost effectiveness, accreditations and experience, breadth of measures and installation that they provide, previous work and complaints that have been issued.
- Where you would like to encourage uptake you could support the marketing of the service by adding your brand and by informing your tenants about it.

Note that all promotional material and activities must be clear and truthful and where relevant comply with the UK Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing (CAP Code) and the UK Code of Broadcast Advertising (BCAP Code). In particular, no inaccurate or misleading claims can be made regarding the relationship between Green Deal repayments and energy bill savings resulting from the installation of an improvement financed under a Green Deal plan. These control systems control the risk of providing bad quality services.

If consumers are approached through cold calling, they must be given a 'cooling off' period of one day after they have agreed to the assessment.

- You may wish to consider the maintenance implications if you consent to works being carried out to your properties under the Green Deal, see p22.

Below is a summary of some of the actions you could consider if you expect to be a non-provider:



Diagram 8 - Actions to consider for non-providers

USING THE GREEN DEAL TO IMPROVE YOUR HOMES

This section focuses on the role of Registered Providers using the Green Deal to improve their stock.

Many Registered Providers have taken steps to improve their property through their own initiatives, through the Decent Homes Programme or programmes such as the Carbon Emissions Reductions Targets (CERT) or the Community Energy Saving Programme (CESP). The HCA publication *Local Authority Action for Energy Efficiency* describes some of the initiatives and strategies adopted by Local Authority providers.¹⁰

There are still steps that Registered Providers could take to improve properties. A report¹¹ by Camco (now Verco) to the NHF quantifies the volume of work to do in the social sector, identifying that 1.2m homes in the sector have potential to benefit from Green Deal works to a high or medium extent.

A list of the measures that could potentially meet the Golden Rule calculation is available at appendix two. Some of the measures listed do not currently meet the Golden Rule, however they are included because they have the potential to meet the Golden Rule in the future, where they become less expensive or more efficient, or energy costs rise.

There is still **Community Energy Savings Programme (CESP)** funding available. In some instances energy companies will subsidise the works to these properties at 100%.

Sustainable Homes is aware of potential in the sector for take up of CESP funding before year end. There are properties that can currently attract considerable subsidy for works.

Following the implementation of the Green Deal, many of these works will be paid for through a charge on the electricity bill. If you have not carried out an in-depth assessment of the eligibility of CESP funding of your stock, you may like to do this soon.

It may be useful to consider which of the measures could still be implemented in your properties. Landlords wanting to improve harder to treat properties could also consider the £190m allocation within ECO including cavity walls, loft and other insulation measures.

What steps could Registered Providers take to prepare? Registered Providers with accurate and appropriate stock data, a strong understanding of it, clear communication mechanisms in place and experience of changing behaviours will be at an advantage.

Stock Management

It is important to maintain a strong asset database and ensure rigorous checks of improvements requested by residents:

¹⁰ <http://www.homesandcommunities.co.uk/energy-efficiency-housing-stock>

¹¹ 'Green Deal Potential in Social Housing' 2011, Anita Baranyi and Mehta, N, National Housing Federation. <http://www.housing.org.uk/idoc.ashx?docid=c8d70d1e-379d-419b-9c1f-3d528f7dabc7&version=-1>

- You may be planning to improve a property that could also take up the Green Deal. There could be efficiencies in providing this work at the same time.
- Where a property has a Green Deal charge associated with it the landlord is liable for the Green Deal payment when the property is void. A Green Deal charge may also affect lettings. You need to have a good understanding of your housing stock and up to date records so that you can decide on the potential implications associated with these additional costs and risks. You may wish to undertake a cost benefit analysis.
- There is flexibility in the system to package a Green Deal with an investment, where for example the housing provider would pay one part of the improvement and the tenant would pay the other part via the Green Deal arrangement.

Maintenance considerations

Although the household or landlord will have responsibility for maintaining the installed measures, Green Deal Providers may offer maintenance contracts which may or may not be part of the Green Deal plan. It will be very important to keep a record of the maintenance obligations of measures for each property. One way to be sure you have a strong understanding of your stock and the potential improvements that could be undertaken is to consider a stock assessment. An example of stock assessments is the Carbon Reduction Options for Housing Managers (CROHM) service¹² provided by Sustainable Homes and Parity Projects.

Helping residents get the most from the Green Deal

A range of communication strategies will be needed to ensure that residents support your stance on the Green Deal. Even where some residents are likely to break even rather than save on their fuel bills, it may still be advantageous to improve the property.

For the Green Deal and other retrofit initiatives to work, the sector will need to be able to clearly indicate how improvements have changed properties and the advantages for residents. There are a number of challenges a communications strategy may need to address.

- For many residents savings are likely to come from reductions in their gas bills, whilst the Green Deal charge will be added to their electricity bill, a source of potential confusion. In addition rising energy prices may mean more of the tenants' income is spent on heating, even as savings from energy efficiency are increased. It is very important to manage expectations.
- Consent issues: there are concerns that by withholding their consent, a single household could prevent energy efficiency measures for an entire block of flats or a terrace, to the detriment of the other tenants. (See accompanying box for consent and tenancy issues.)

¹² <http://www.sustainablehomes.co.uk/stock-carbon-assessment/>

- The Golden Rule calculation is based on average energy use. In some instances residents may be under heating their homes. The improvements to the property may not reduce their fuel bills, but may make it easier to heat the property to a level that is adequate and healthy.

On 11 June 2012 the Department for Energy and Climate Change noted, in their feedback to consultation responses, that where “a lower than average energy user wishes to take out Green Deal finance, the Green Deal Provider must obtain a written acknowledgement that they are aware that, based on energy use, the Green Deal charge may not be fully offset by their energy savings¹³.”

In these cases it may be that emphasis on the improved warmth or quality of the home, rather than the savings, is more likely to gain buy in. Residents may be more likely to agree to a Green Deal charge where they understand how improvements have improved comfort in the home.

- Bill savings are not guaranteed and might not be sufficient on their own to attract buy in.

In relation to an installation, whether **consent** is needed will depend on the property, tenure and measures being installed. It is likely that a **tenancy agreement** will contain provisions which oblige the tenant to obtain the landlord's consent to the installation of a measure. In addition, the electricity bill payer (which may be the tenant) and the owner of the property would both need to give express written consent to the imposition of the Green Deal charge. Consents from third parties may also be required such as the freeholder, the local planning authority, and/or any funders with an interest.

It is not currently proposed for consent to be given by owners who would be unlikely to become liable to pay the electricity bills at a property which in some cases may include freeholders and landlords under a long-lease (e.g. a 125 year lease of a residential property). However, an individual assessment of which consents may be required should be carried out on a case by case basis taking into account the relevant circumstances and legal obligations.

Once Green Deal measures are installed, the owner, landlord or licensor will have a duty to disclose the presence of a Green Deal at a property which is to be sold, let or occupied under licence.

The draft secondary legislation which will implement the disclosure requirements (Disclosure Regulations) has been published but has not yet been implemented. In summary, the Energy Act and Disclosure Regulations require that the presence of a Green Deal is disclosed when a prospective buyer/tenant or licensee views a Green Deal property, or if they don't view the property when they make an offer to buy or let the property.

The Energy Act 2010 further provides that a buyer/tenant must acknowledge the presence of the Green Deal at a property which they are buying or letting. The proposed Acknowledgement Regulations set out a form of words to be included in a contract for a sale or letting.

In the case of properties to be let which are subject to the Green Deal a tenancy agreement would need to include a statement from the tenant that it acknowledges that as a person who is liable to pay the electricity bill for the property they will be liable to make payments under the Green Deal Plan and that they are bound by the terms of that plan that are stated to bind the electricity bill payer.

Tenancy considerations - provided by Caroline Mostowfi, Devonshires

¹³ DECC feedback to consultation responses can be found at <http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/5521-the-green-deal-and-energy-company-obligation-cons.pdf>. These changes were announced on 11 June 2012.

Some Registered Providers may also decide that the Green Deal is not right for them. Instead of taking it up they may decide to undertake these works through standard maintenance improvements. In this instance they are likely to need to have a clear communication plan on how and when these works will take place.

Behavioural change

There are many examples that demonstrate the positive results of educating residents. The RELISH project, for instance, carried out by Worthing Homes, concluded that low cost refurbishment works (£6,500 carried out to homes that were already in good condition) with education saved £367.72 on total household energy bills, whilst a similar home that received the same refurbishment works without education saved only £38 over the same year. Another household that received education only, saved £223.44. Importantly, these savings continued after Worthing Homes left the residents and some residents went on to make further savings.¹⁴

The National Housing Federation is managing Count Us In, a project that is co-ordinating the road testing of five different strategies for resident engagement (see www.housing.org.uk).

The Green Deal assessment provides initial recommendations on changing behaviour to reduce fuel bills. Should you want to further support this you may like to provide advice or training for residents on how they can reduce fuel bills, understand heating controls and reduce condensation in the home. A number of associations have asked Sustainable Homes to provide in house training for residents on energy efficiency. Some are now training residents to train others.

¹⁴Relish™ (Residents 4 Low Impact Sustainable Homes) is a project by Worthing Homes <http://www.relish.org/>

CONCLUSIONS

Registered Providers and local authorities have a range of options. Some are looking to provide loans, others are partnering and some are taking a wait and see approach. Whichever approach you adopt, all organisations managing homes will need to be able to clearly communicate the Green Deal to residents and the steps being undertaken to improve their properties.

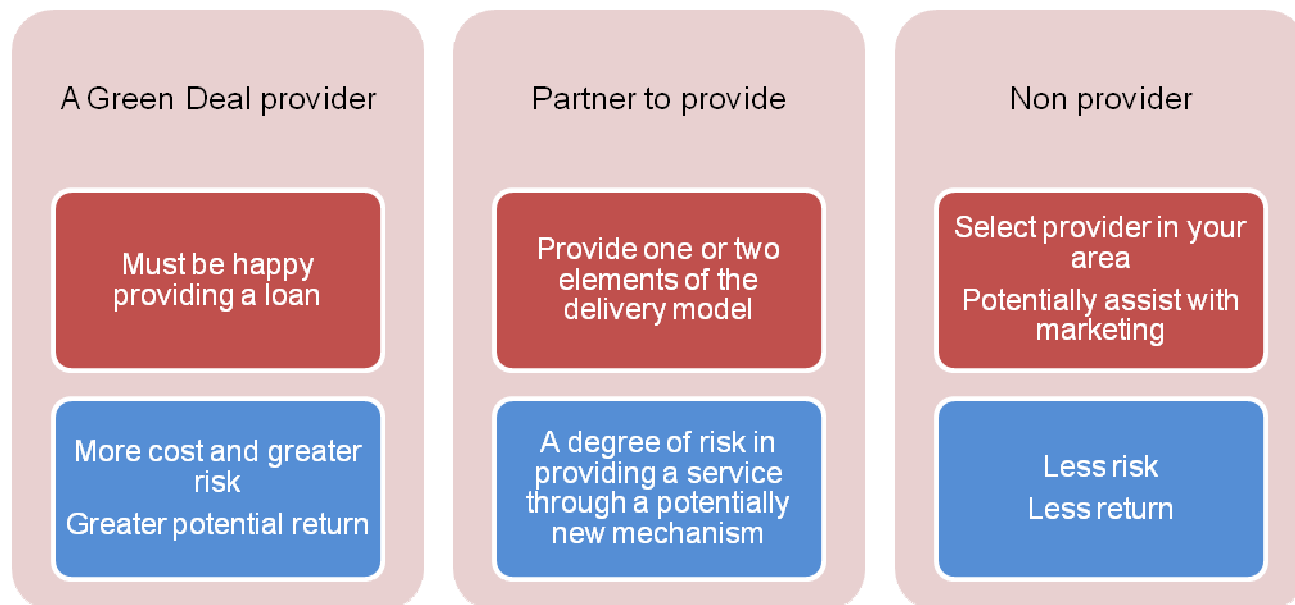


Diagram 9 - Summary of the three potential provider roles

Whilst there are a number of issues to be considered by landlords, the Green Deal is a significantly interesting prospect. It is likely to attract millions of pounds of private sector investment into an area that needs focus – improving the energy efficiency of homes.

In the process, with the right marketing and protections, it has the potential to ignite interest in energy efficiency in the home. Affordable housing providers have an opportunity to be a part of this, at the least helping to galvanise interest. Now that might be a deal worth investigating.

CHECKLIST

Registered Providers should consider the following:

If you are considering becoming a provider you may like to consider the potential to:

- Provide the Green Deal services.
- Meet regulatory and bureaucratic requirements described above.
- Obtain low cost finance.
- Take a loss should uptake be considerably lower than expected.

If you are considering partnering you could consider:

- Assessing the competitiveness and comprehensiveness of your service against competitors.
- Who you could partner with to provide the remainder of the services.

All associations irrespective of their role could consider:

- Overhauling their stock condition data and processes in the light of the Green Deal.
- Assessing which properties are eligible for the Green Deal measures through carbon assessment methodologies.
- A communications strategy to communicate the Green Deal and ECO to tenants.
- Developing mechanisms to signal which properties have a Green Deal charge.
- Undertaking an independent assessment of the sustainability of their own organisation through accredited methodologies such as ISO14001 or SHIFT.

APPENDIX ONE - SUMMARY OF USEFUL TERMS

- **CERT – Carbon Emission Reduction Target** is a government initiative that requires all domestic energy suppliers with a customer base in excess of 250,000 to make savings in the amount of CO₂ emitted by householders. It is known as a ‘supplier obligation’.
- **CESP – Community Energy Saving Programme** is a supplier obligation designed to help people to reduce their fuel bills and energy demand by undertaking works at scale on a community basis.
- **Code of Practice** – The Green Deal Code of practice sets out the criteria that advisors, products, systems, installers and providers must meet and adhere to in order to be able to operate under the Green Deal.
- **Consumer Credit Act 1974 (CCA) licence** –The Consumer Credit Act 1974 requires businesses that lend money to consumers or offer goods or services on credit to be licensed by the Office of Fair Trading. A valid Consumer Credit Act 1974 (CCA) licence should be held by the Green Deal Provider to ensure important rights and protections to consumers. Trading without a licence in such cases is a criminal offence and can result in a fine and/or imprisonment.
- **DECC - Department for Energy and Climate Change** – The department with the responsibility for progressing the Green Deal.
- **ECO – Energy Company Obligation**. Annual funding of £1.3bn focused on hard to treat, affordable warmth.
- **Green Deal Advisor** – An advisor recommends the energy efficiency improvements for the property. Advisors are accredited to provide these recommendations and quality assurance is undertaken on their work.
- **Green Deal Arrangement Agreement (GDAA)** – Agreement between Green Deal Providers and electricity providers governing the recouping of the Green Deal charge from the electricity company.
- **Green Deal Oversight Body** – An independent body to manage the day to day activities of the Green Deal on behalf of DECC. It will manage the approval process for installers, assessors and products.
- **Green Deal Plan** – The financial and contractual agreement between Green Deal Providers and the customer outlining the payment.
- **Hard to treat**– these include homes without lofts and properties with solid walls.

- **Home Energy Conservation Act (HECA) 1995** – Requires every UK local authority with housing responsibilities to publish an energy conservation report identifying practicable and cost effective measures to significantly improve the energy efficiency of all residential accommodation in their area and progress made in implementing the measures.
- **Private homes** – In relation to domestic properties, the following types of tenancies will be subject to the restriction on letting:
 - Assured tenancies (including Assured Shorthold Tenancies, commonly known as ASTs).
 - Regulated tenancies under the Rent Act 1977.
 - Any other tenancy which is specified for these purposes by the Secretary of State.

Various exemptions relating to social housing will apply, including where the property is low cost rental accommodation and the landlord is a Private Registered Provider, and where property is owned under a shared ownership scheme.

- **The Office of Fair Trading (OFT)** – The Office of Fair Trading promotes and protects consumer interests throughout the UK, while ensuring that businesses are fair and competitive.
- **The Green Deal Charge** is a charge on the electricity meter and not a personal loan; it is therefore transferred to the new tenants/owners of the home when they move in.
- **The Golden Rule:** The Green Deal Charge should be less than the energy bill savings achieved as a result of the energy saving measures and should be repaid within the lifetime of the installations. As long as installations meet this Golden Rule, there is no limit on available finance.

APPENDIX TWO - MEASURES THAT MAY QUALIFY UNDER THE GOLDEN RULE

A measure means an improvement made to a property, for example, loft or cavity wall insulation which is suitable for the property. Measures which generate energy also qualify¹⁵. If a measure is capable of paying for itself because occupiers use less energy as result of the installation – then potentially it can qualify. Repayment terms will be limited by expected lifetime data for each measure.

There has been considerable discussion about warranties of these products. To ensure the Green Deal can function effectively government has moved to reduce requirements to businesses providing the Green Deal. Extended warranties for measures given by providers will be limited to a minimum of five years, with longer terms enforced in special circumstances.

The following sets out some measures that are likely to qualify under the Golden Rule (**in bold**) and those that may qualify in future (not bolded)¹⁶.

Heating, ventilation and air conditioning

Condensing boilers

Heating controls

Under-floor heating

Heat recovery systems

Mechanical ventilation (non-domestic)

Flue gas recovery devices

Building fabric

Cavity wall insulation

Loft insulation

Flat roof insulation

Internal wall insulation

External wall insulation

Draught proofing

Floor insulation¹⁷

Heating system insulation

Energy efficient glazing and doors

Lighting

Lighting fittings

Lighting controls

Water heating

Innovative hot water systems

Water efficient taps and showers

¹⁵ Renewable Heat Incentive (RHI) & Feed-In-Tariff (FIT) income do not count toward the Golden Rule calculation.

¹⁶ The impact assessment of the Green Deal consultation outlines which measures are likely to meet the Golden Rule. <http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/5521-the-green-deal-and-energy-company-obligation-cons.pdf>

¹⁷ Generally floor insulation will not meet the Golden Rule though easy to access suspended timber floors may do.

Micro-generation

Ground and air source heat pumps
Solar thermal
Solar PV
Biomass boilers
Micro-Combined Heat and Power (Micro-CHP)

On 11 June 2012 DECC added new eligible measures¹⁸. These measures are usually seen in non-domestic properties.

New measures added on 11 June

Chillers
Duct insulation
Heating ventilation and air-conditioning controls (including zoning controls)
Hot water controls (including timers and temperature controls)
Hot water showers
Hot water systems
Hot water taps
Pipework insulation
Sealing improvements (including duct sealing)
Radiant heating
Solar blinds, shutters and shading devices
Water source heat pumps
Transpired solar collectors
Variable speed drives for fans and pumps

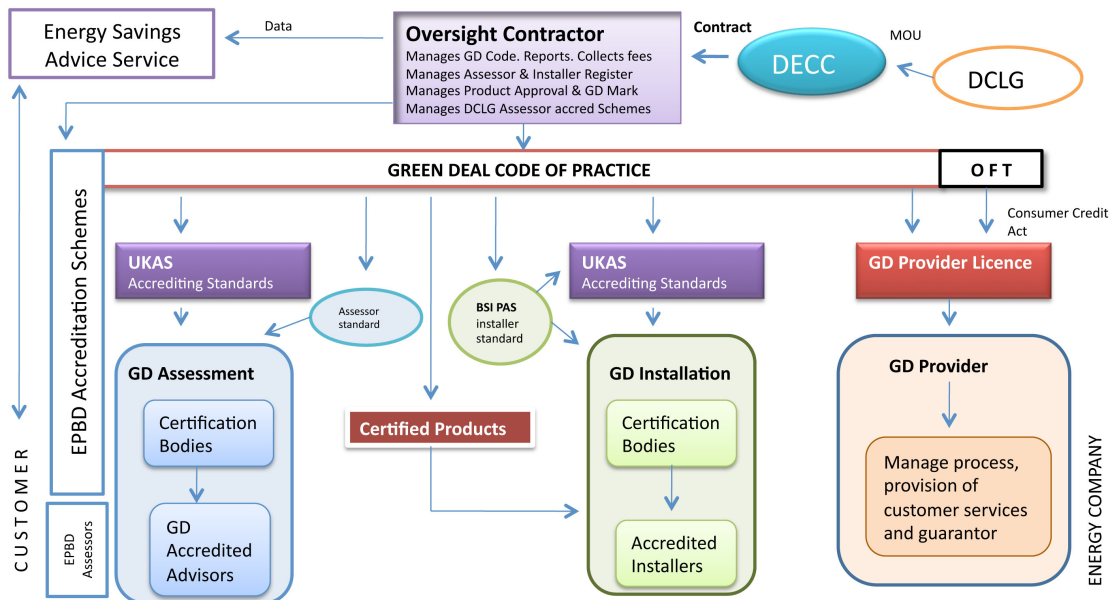
It is important to note that measure need to meet four criteria before installation. Measures need to be:

- i. Eligible (from the list above).
- ii. Suitable for the property – have been assessed and recommended by the Green Deal advisor.
- iii. Meet the Golden Rule calculation – the Green Deal provider will carry out this calculation to check that models show the charge as lower than the energy efficiency improvements.
- iv. Must meet standard health and safety requirements of the product being installed.

¹⁸ The Government responded to the Green Deal consultation on 11 June 2012. This can be viewed here: <http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/5521-the-green-deal-and-energy-company-obligation-cons.pdf>

APPENDIX 3 – OVERSIGHT AND ACCREDITATION BODIES FOR THE GREEN DEAL

GREEN DEAL OVERSIGHT AND ACCREDITATION



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